

**REPORT OF THE AUDIT OF THE
LEE COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

August 18, 2003



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet
Honorable L.C. Reese, Lee County Judge/Executive
Honorable Harvey Pelfrey, Lee County Sheriff
Members of the Lee County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Lee County Sheriff's Settlement - 2002 Taxes as of August 18, 2003.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Lee County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
LEE COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

August 18, 2003

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
LEE COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

August 18, 2003

Ross & Company PLLC has completed the audit of the Sheriff's Settlement - 2002 Taxes for Lee County Sheriff as of August 18, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$1,348,086 for the districts for 2002 taxes, retaining commissions of \$56,595 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,292,901 to the districts for 2002 Taxes. Taxes of \$514 are due to the districts from the Sheriff and refunds of \$2,012 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$663,617 To Protect Deposits

Deposits:

The Sheriff's deposits were not insured and collateralized by bank securities or bonds.

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Independent Auditor's Report

We have audited the Lee County Sheriff's Settlement - 2002 Taxes as of August 18, 2003. This tax settlement is the responsibility of the Lee County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Lee County Sheriff's taxes charged, credited, and paid as of August 18, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 23, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
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Finance and Administration Cabinet
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet
Honorable L. C. Reese, Lee County Judge/Executive
Honorable Harvey Pelfrey, Lee County Sheriff
Members of the Lee County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$663,617 To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
September 23, 2003

LEE COUNTY
HARVEY PELFREY, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

August 18, 2003

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 284,638	\$ 175,070	\$ 396,588	\$ 160,779
Tangible Personal Property	41,831	16,242	38,454	32,847
Intangible Personal Property				8,037
Fire Protection	2,672			
Increases Through Exonerations	19	11	26	11
Omitted Taxes	4	2	7	3
Franchise Corporation	90,539	39,509	92,590	
Additional Billings	493	308	703	284
Oil and Gas Property Taxes	11,476	7,128	16,299	6,565
Limestone, Sand, and Mineral Reserves	26	16	36	14
Bank Franchises	16,771			
Penalties	3,713	2,252	5,116	2,149
Adjusted to Sheriff's Receipt	71	78	749	96
Gross Chargeable to Sheriff	<u>\$ 452,253</u>	<u>\$ 240,616</u>	<u>\$ 550,568</u>	<u>\$ 210,785</u>
<u>Credits</u>				
Exonerations	\$ 3,026	\$ 1,829	\$ 4,147	\$ 1,767
Discounts	4,675	2,509	5,711	2,668
Delinquents:				
Real Estate	19,919	12,165	27,558	11,172
Tangible Personal Property	523	203	887	615
Intangible Personal Property				26
Delinquent Oil	45	29	69	27
Delinquent Additional Bills	208	133	307	123
Uncollected Franchise	2,468	991	2,336	
Total Credits	<u>\$ 30,864</u>	<u>\$ 17,859</u>	<u>\$ 41,015</u>	<u>\$ 16,398</u>
Taxes Collected	\$ 421,389	\$ 222,757	\$ 509,553	\$ 194,387
Less: Commissions *	<u>18,197</u>	<u>9,467</u>	<u>20,382</u>	<u>8,549</u>
Taxes Due	\$ 403,192	\$ 213,290	\$ 489,171	\$ 185,838
Taxes Paid	403,458	212,954	489,708	186,781
Refunds (Current and Prior Year)	<u>25</u>	<u>15</u>	<u>34</u>	<u>14</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (291)</u>	<u>\$ 321</u>	<u>\$ (571)</u>	<u>\$ (957)</u>

* and ** See Page 4.

The accompanying notes are an integral part of this financial statement.

LEE COUNTY
HARVEY PELFREY, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES
August 18, 2003
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	828,533
4% on	\$	509,553

** Special Taxing Districts:

Library District	\$	(107)
Health District		(57)
Extension District		514
Soil Conservation District		<u>(29)</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>321</u></u>

The accompanying notes are an integral part of this financial statement.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS

August 18, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 12, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$663,617 of public funds uninsured and unsecured.

LEE COUNTY
 NOTES TO FINANCIAL STATEMENT
 August 18, 2003
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 12, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	96,584
Uncollateralized and uninsured	<u>663,617</u>
Total	<u><u>\$ 860,201</u></u>

Note 4. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 24, 2002 through May 31, 2003.

Note 5. Interest Income

The Lee County Sheriff earned \$810 as interest income on 2002 taxes. As of September 23, 2003, the Sheriff is due \$4 in interest from the school district and owes \$516 in interest to his fee account.

Note 6. Sheriff's 10% Add-On Fee

The Lee County Sheriff collected \$11,392 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of September 23, 2003, the Sheriff owes \$765 in 10% add-on fees to his fee account.

Note 7. Advertising Costs And Fees

The Lee County Sheriff collected \$790 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
August 18, 2003
(Continued)

Note 8. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2002 taxes, the Sheriff had \$1,971 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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COMMENT AND RECOMMENDATION

LEE COUNTY
HARVEY PELFREY, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of August 18, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$663,617 To Protect Deposits

On November 12, 2002, \$663,617 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

None.

PRIOR YEAR:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Members of the Lee County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Lee County Sheriff's Settlement - 2002 Taxes as of August 18, 2003, and have issued our report thereon dated September 23, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lee County Sheriff's Settlement -2002 Taxes as of August 18, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$663,617 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lee County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company, PLLC

Audit fieldwork completed -
September 23, 2003

